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TAGS: ECON EINV EFIN SR
SUBJECT: Serbia Affected by the Worldwide Financial Crisis

Summary

¶1. At an October 7 conference about the effects of the world financial crisis on Serbia, speakers from the government, Central Bank and commercial banks concluded that loans in Serbia would get more expensive, but that banking sector in Serbia had significant reserves and thus was more resistant to crisis than in other countries. Commercial banks asked citizens not to withdraw deposits from banks. The crisis was reflected in Belgrade Stock Exchange's leading index dropping 30% in just one week. End Summary.

Conference: Global Financial Crisis & Impact on Serbia
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¶2. On October 8, the Belgrade Economic Faculty and Ekonomist Media Group organized a forum entitled "Global Financial Crisis and its Influence on the Region and Serbia" with participation of National Bank of Serbia (NBS) Governor Jelasic, Finance Ministry State Secretary Slobodan Ilic, Securities Commission member Jovanovic and a number of most prominent banks' managers. The participants concluded that due to global financial crisis the supply of credit in Serbia would decrease and the price of credit would go up significantly, but no other dramatic developments were expected.

Governor Jelasic: Sleep Tight...

¶3. Governor Jelasic pointed in his presentation to worldwide governments' responses to the crisis, such as pumping huge sums of money into the system, or increasing guaranteed deposits to 100%, and said that he saw no reason for further Serbian government engagement or additional deposit insurance since the banking sector in Serbia was different. Total savings in Serbian banks of 5.7 billion euros were fully covered by NBS reserves of almost 10 billion euros. Obligatory reserves on foreign exchange deposits were 45% and there was a high capital adequacy of 28% (compared to 8-9% in developed EU countries). The Governor joked that the current crisis would actually help solve most of the NBS' headaches - overheated demand for credits that generated inflation, strong growth in consumer debt.

¶4. The Governor said that the crisis has already affected Serbia through more expensive credit. He also noted that demand for credit had also decreased. The real long term challenge for Serbia was balance of payment financing in a situation of increased cost of borrowing abroad, and foreign investors' cautiousness. He encouraged the government to be more restrictive in spending.

Finance Ministry, Securities Commission, BSE

¶5. Finance Ministry State Secretary Slobodan Ilic stated that the state guaranteed for deposits up to 3,000 euros and said that the possibilities to increase this amount were limited. A government working group has been established for crisis monitoring. Djordje Jovanovic, a regulator from the Securities Commission, stated that

the influence of the crisis was obvious in the withdrawal of foreign investors from the Belgrade Stock Exchange (BSE), where their share in trading was only 24% on October 7 compared to the usual 50%. He also asked for more authority for Securities Commission and to improve financial markets regulatory framework. The Belex15 index has lost 65% of its value since the beginning of 2008. Only 0.31% of Serbia's citizens are directly invested in Serbian capital market, and the first local mutual funds started in 2007.

Commercial Banks Reps: Don't Withdraw Deposits
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¶6. Representatives of commercial banks (Intesa, Societe General, Meridian Credi Agricole Group, Komercijalna) tried to reassure depositors, and
encouraged them to stop withdrawing deposits. They said that Serbian banks had enough liquidity to respond to all customer requests. They all agreed that Serbia would suffer the consequences of the world crisis; the question was only to what extent. All of them announced higher interest rates and lower credit volume. Mihajlovic from Komercijalna stated that commercial customers would suffer more than banks due to restrictions on cross border credits taken directly from multinational banks' home offices, which were facing difficulties now.

Real Estate Prices To Drop, Lehman Brothers To Blame
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¶7. Vlada Cupic from Hypo Alpe Adria Bank stated that not all existing credit lines would be renewed. Companies would have to use their own reserves and/or sell property in order to provide working capital. This could lead to a drop in business real estate prices and could spread later in the housing sector. Zoran Petrovic of Raiffeisen Bank added that the key accelerator of the world crisis was the Lehman Brothers bankruptcy since it had introduced systemic risk inside the financial system - the rule "too big to fail" did not apply anymore. He said that trust among banks had decreased to the lowest possible level and banks no longer trusted each others' balance sheets. If foreign financing was blocked for a long time, most likely even already approved loans would get more expensive, Petrovic said.

COMMENT

¶8. Serbia has not escaped the effects of the financial crisis as reflected in the fall in the Belgrade Stock Exchange and the tightening of credit. Several of Serbia's largest banks announced that they have stopped issuing all loans indexed to Swiss Francs, and announced increased interest rates. Banks, however, have significant reserves due to high NBS requirements, so do not face liquidity problems. The real effect of the financial crisis in Serbia is likely to hit in the coming months as export sales slow, increasing the already high trade deficit, reducing government revenues which will put pressure on the government's growing spending. Serbia's privatization schedule will also likely be affected as there are fewer customers for Serbia's communist-era factories.

Serbia already faced a difficult environment for attracting enough foreign direct investment to shore up the current account deficit. Now that international investors' credit lines are drying up, Serbia will feel the effects of the economic crisis in the coming months. End Comment.

MUNTER